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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

Belgium: Economic Aspects of the Regional Conflict

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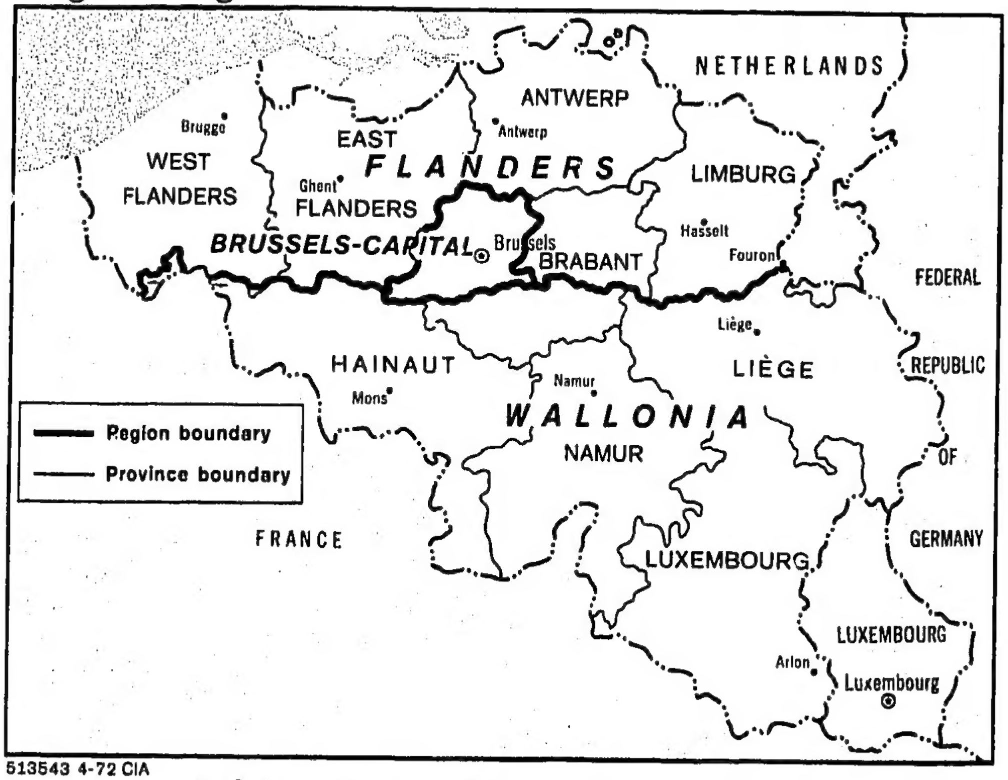

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Belgium: Selected Economic Data, 1971

GNP: $31.5 billion
Population: 9,759,000
Per capita GNP: $3,230
GNP growth rate 1960-1970: 4.9%
GNP growth rate 1971: 3.7%
Exports: $13,700 million
Imports: $13,300 million
Foreign Reserves (31 Dec. 1971): $3.5 billion

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
May 1972

INTELLIGENCE MEMORANDUM

BELGIUM: ECONOMIC ASPECTS OF THE REGIONAL CONFLICT

Summary

1. The antipathy between Belgium's two major linguistic regions, Flanders and Wallonia, has been aggravated throughout Belgium's existence by one or the other region's concern that its rival was dominating the nation's economic life. Until World War II, French-speaking Wallonia was able to bask in the prosperity created by its coal mining and heavy industries, enjoying higher incomes and lower unemployment than prevailed in Flanders. In recent decades, however, Belgium's center of economic gravity has shifted from Wallonia to Flanders. Now Flanders' per capita gross domestic product, traditionally lower, exceeds Wallonia's, while the unemployment rate in Wallonia is now nearly double that of Flanders. This shift has seriously strained relations between the two communities and contributed to the substantial gains scored in last year's elections by extremist parties which seek to divide Belgium into Dutch-speaking and French-speaking states. More recently, there have been demonstrations in Wallonia reflecting popular discontent with the region's stagnant economy.

2. Belgium's attempts at correcting the regional economic imbalance through economic development programs date back to 1959. Based largely on investment incentives, these programs have foundered because political pressures from the two linguistic communities led to incentives' being spread so thinly that their preferential thrust was lost or dissipated This failure led to the enactment of two new laws in 1970, which to date have not yet been fully implemented.

3. Even if regional development assistance is more concentrated in problem areas, the disparity in regional growth probably will continue to

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increase well into the 1970s. It is unlikely that Belgium's Fleming-controlled central government will voluntarily provide enough assistance to markedly improve Wallonia's economic position relative to that of Flanders. Demonstrations and political pressure by Walloon activists thus may be expected to continue and, possibly, to increase. Eventually, this pressure could result in the achievement of greater regional autonomy and in more effective measures' being taken to ameliorate Wallonia's economic plight. Such efforts, however, would require considerable attention to infrastructure development and worker retraining. Many years would elapse before new programs could have a significant effect on economic growth. Meanwhile, the present bitterness would linger.

Discussion

Background

4. Deep hostility between Belgium's two linguistic and cultural regions, Dutch-speaking Flanders and French-speaking Wallonia, has long been a source of friction in Belgian life.[1] It has contributed to nearly every domestic governmental crisis. In recent times a growing economic disparity between the two communities has further aggravated the inherent rivalry and distrust. For more than a century the Walloons – although a minority – ruled over the country as an elite, enjoying a higher average income and lower unemployment than the people of Flanders. But now the tables are turned: Belgium's "economic center of gravity" has shifted northward to Flanders, causing bitter resentment in Wallonia. In gross domestic product (GDP) per capita, Wallonia now lags behind Flanders. The Walloons are piqued at being eclipsed by the Flemings, whom they consider culturally inferior.

5. Population trends compound the Walloons' concern. Flanders' population now approximates 5.5 million persons, compared with just over 3 million in Wallonia and about 1.5 million in the bilingual Brussels-capital region. The natural rate of population increase in Flanders, moreover, is substantially higher than that in Wallonia. As the Walloons see it, the disparity in population growth puts their region at a growing disadvantage both politically and economically.

6. Flagging economic growth, high unemployment, declining economic strength relative to Flanders, the prospect of being an increasingly

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impotent minority in the present unitary state, and fear of neglect of their interests by the Fleming-dominated national government are all real concerns to the Walloons. Walloon activists are seeking to exploit these concerns in tandem with the deep-seated social and political animosity between the regions. They are agitating for economic development legislation that would benefit Wallonia, for greater economic autonomy, and – in some instances – even for separatism as a cure for their region's woes. As a result of the November 1971 parliamentary elections which resulted in substantial gains by extremist parties seeking to divide Belgium into Dutch-speaking and French-speaking states and the recent demonstrations in economically troubled Wallonia, Belgium's new Socialist-Social Christian government is under strong pressure to correct the growing imbalance. Major Walloon political figures are backing the demonstrators' demands that the government act immediately to regenerate Wallonia's stagnant economy.

7. The Brussels-capital region, significantly more prosperous than either Flanders or Wallonia, is not directly involved in the regional economic conflict. Although geographically situated in Flanders, Brussels is officially bilingual but is in fact predominantly French-speaking. The region is relatively free of economic troubles. Unemployment was not a problem in the 1960s and in 1970 stood at less than 2% of the labor force, compared with 2.7% in Flanders and 5.0% in Wallonia. The Brussels region seldom vies with the other two regions for special incentives to stimulate investment. Moreover, because of the importance of commerce, banking, insurance, and services in its economy, the Brussels region competes less with the other two regions for industrial and agricultural development projects than those regions do with each other.

The Shifting Center of Economic Gravity

8. Walloon industrial installations suffered very little damage during World War II, and, with this advantage, Wallonia prospered for several years in the postwar sellers' market for heavy goods. During the early postwar years, however, Wallonia's competitors began to re-equip their traditional industries with modern facilities and also pushed ahead into new industries. A complacent Wallonia was left with old-fashioned industries and obsolescent capital equipment no longer adequate to meet the challenge of competition from abroad – or from the new industries springing up in Flanders. Investors seeking Belgian industrial sites shied away from Wallonia – with its abandoned mines, soot-encrusted buildings, poor road net, and other deficiencies in infrastructure – and chose more prosperous areas instead.

9. Wallonia has been further handicapped by the decline of its coal-mining industry, which traditionally had generated a relatively large

share of its GDP. Because of the progressive exhaustion of deposits and the high production cost of domestic coal, Belgian coal-users turned increasingly to higher-grade foreign coal and to petroleum. The shift caused Wallonia's coal production to fall from 20.5 million metric tons in 1950 to 4.2 million tons in 1970, while its contribution to Wallonia's GDP plummeted from more than 9% in the mid-1950s to around 3% currently. Declining coal production sharply reduced mining employment, from 88,000 persons in 1950 to 18,000 in 1970. At the same time, rising coal prices increased production costs in the region's steel, metalworking, chemical, electric power, and gas plants that continued to rely on locally-produced fuel. Although the Walloon steel industry has been modernizing some of its old installations, location is increasingly a handicap. Europe's steel producers now prefer coastal sites that afford easy access to foreign ores and coking coal.

10. Flanders on the other hand – with its direct access to the sea – has prospered from the expansion of Europe's foreign trade. Its obvious locational advantage is accentuated by Belgium's increasing need to import fuels and raw materials as domestic resources are exhausted. Since the inception of the European Community (EC), new industries designed to serve the entire Common Market area have found it advantageous to locate plants near the major ports of Antwerp, Zeebrugge, and Ghent. Between 1960 and 1970, two-thirds of the $2 billion total invested by foreigners in Belgium went to Flanders, most of it to the Brussels-Ghent-Antwerp triangle. Among the firms which have set up facilities in the Antwerp area are General Motors, Ford, Petrofina, Phillips Petroleum, Bayer, Union Carbide, and Monsanto. Ranking second only to Rotterdam among West European ports, Antwerp now handles more than 60 million tons of merchandise each year. The port of Ghent has also attracted important industrial plants, including a Texaco refinery, a Volvo automobile assembly plant, and Sidmar (Siderugie Maritime SA) -- the new steel complex.

Measures of the Growing Economic Imbalance

11. Flanders' dynamic economic growth and Wallonia's stagnation are evident from the limited data available on a regional basis (most of which end with 1968). From 1955 to 1968, annual growth in manufacturing output averaged 8% in Flanders, compared with only 5% in Wallonia. Moreover, in 1966-68 Wallonia's annual gains fell to an average of only 4.5%, while Flander's growth maintained a 7.8% average rate. In Flanders, average annual growth of 12.5%-15.5% was registered in the metallurgical, utilities, and chemicals industries and in finance and insurance. In contrast, Wallonia suffered average annual output declines of 3.0% in mining, 2.3% in metal manufacturing, and 0.4% in chemicals, while achieving annual gains of only 3.2% in the metallurgical industry. Flanders' growth also exceeded

Wallonia's in nearly every other economic sector. By 1968, Flanders accounted for 48% of Belgian GDP, up from 44% in 1955, while Wallonia's share had slipped from 34% to 29%. Flanders' contribution to total Belgian output increased notably not only in manufacturing but also in agriculture, mining, utilities, and transportation (see the table).

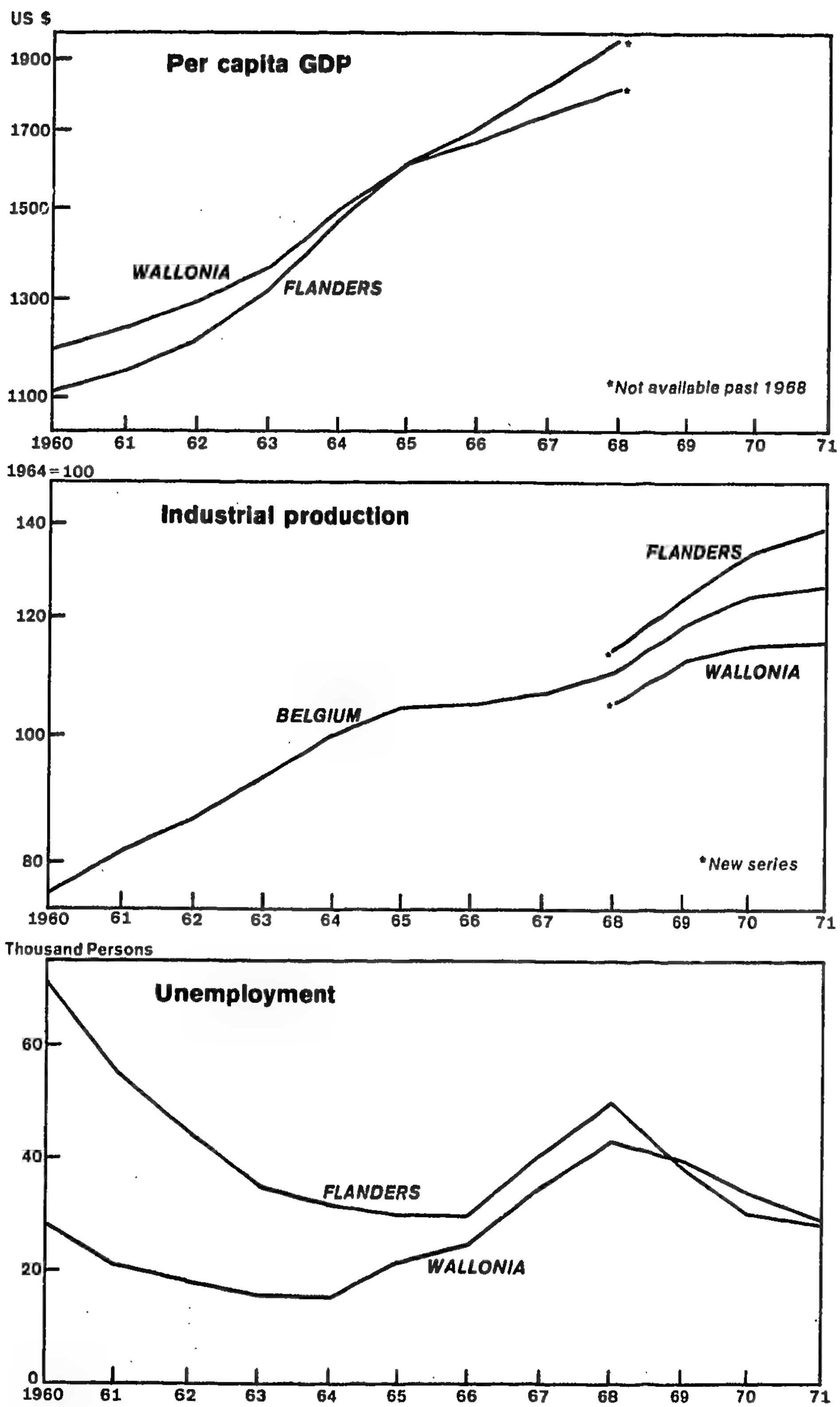
Belgium: Regional Shares of Gross Domestic Product by Sector of Origin

Percent

	Flanders		Wallonia		Brussels-Capital Region	
	1955	1968	1955	1968	1955	1968
Total GDP	44	48	34	29	21½	23
Agriculture	52½	57½	42½	38½	5½	4
Mining	29	38½	71	61	½	½
Manufacturing	44½	52	37	30½	18½	17½
Construction	47	49	28	25	25½	26
Utilities	39	49	42	31½	19½	19
Commerce, banking, insurance, and housing	40½	41½	27	22½	32½	36
Transportation and communications	48	54½	29	22½	23	22½
Other services	46½	45½	30	30½	23	24

12. The northward shift of economic activity through the 1960s led to increasing disparity not only in overall regional growth but also in two politically sensitive regional economic indicators – per capita GDP and unemployment (see the following chart). During 1960-68, Flanders' per capita GDP almost doubled, growing at an average annual rate of 7.5%, compared with Wallonia's 5.4% rate. Regional data on per capita GDP are not available past 1968, when Flanders' 7.5% rate was nearly twice Wallonia's 4.1%. Industrial production data for recent years, however, suggest that a substantial disparity in economic growth rates has continued (see center panel of the chart). In 1969-70, industrial production in Wallonia grew by an average of only 5.1%, as against 8.6% in Flanders.

Belgium: Regional Trends



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13. A marked increase in unemployment has occurred in Wallonia (lower panel of the chart), contributed to by the closing of some 48 of the region's obsolescent coal mines in the 1960s. During the decade, Wallonia's unemployment rate rose from 4.7% to 5.0%, while that of Flanders plummeted from 7.0% to 2.7%. Also, for the first time since the end of World War II, unemployment in Wallonia exceeded that in Flanders in absolute as well as in relative terms despite the much greater size of the Flemish labor force. By 1970, Wallonia – with only 30% of the country's labor force – accounted for more than 47% of Belgium's unemployed.

14. In spite of Belgium's small size, there is little labor mobility between Wallonia and Flanders. Linguistic and cultural differences present effective obstacles to population movements between Wallonia and Flanders. According to data on net inter-regional migration from 1958 to 1966, Flanders experienced no net migration, Wallonia lost 26,000 inhabitants, and the Brussels-capital region gained 26,000 inhabitants.

Early Efforts to Alleviate Regional Imbalance

15. Since 1959 the Belgian government has attempted to balance regional growth through financial stimuli and investment incentives. Regional economic expansion laws in 1959 and 1966 were aimed at a more balanced distribution of economic activity and the solution of specific regional problems. The laws' stated objectives clearly reflect these concerns:

> **Law of 1959**: To promote the general interest by a balanced distribution of economic activities and affluence between the regions of the country and to combat the social and economic difficulties specific to some of these regions.
>
> **Law of 1966**: To promote and expedite economic development and reconversion of the coal mining regions and certain other regions confronted with acute and pressing problems.

16. The 1959 law aimed at stimulating investment in the underdeveloped areas of Flanders as well as modernizing Wallonia's dying industries. The outcome soon proved a disappointment to Wallonia, especially with respect to the depressed mining areas. The 1966 expansion law was drafted primarily to help the mining areas. But the Flemings exerted strong pressure to ensure that their region also would benefit. In fact, ironically, Flanders has received more government assistance than Wallonia and has fared better with regard to investment and job creation. From July 1959 to December 1969, investments benefiting from the expansion laws amounted to $6.0 billion. Of this amount, Flanders received $3.5 billion,

most of it concentrated in Antwerp and East Flanders, the provinces experiencing the highest growth rates in all of Belgium during the 1960s. Wallonia received $2.4 billion, and $0.1 billion went to the Brussels-capital area. Between 1959 and 1967, according to official estimates, new investments benefiting from these aids led to the creation of 159,000 new jobs – 71% of them in Flanders, 26% in Wallonia, and 3% in the Brussels-capital region.

New Initiatives

17. In part to correct failures of the 1959 and 1966 laws, the Economic Decentralization and Economic Expansion Laws of 1970 were enacted. The Decentralization Law attempts to channel regional linguistic pressures into constructive activity by establishing advisory regional economic councils for Flanders, Wallonia, and the Brussels-capital area. The 1970 Expansion Law, technically in effect on 1 January 1971,(2) incorporates most of the investment incentives contained in the earlier laws, including interest rate subsidies, interest-free loans for specified purposes, government guarantees, subsidies for infrastructure development, and various tax benefits. The government, however, has stated that it will selectively and actively use a wider range of incentives to encourage the kinds of investment most needed for balanced economic growth.

18. The new Expansion Law also authorizes new kinds of government assistance to firms investing in depressed areas. The most important new form of assistance is the "progress contract" – made only in the case of long-range investment programs involving substantial industrial research and management reorganization. Under such a contract, the government may agree to purchase for its own account a specific amount of the firm's output for a given number of years. Progress contracts including guarantees of government procurement have already been concluded with the Dutch firm Philips Gloelampenfabrieken and with the German firm Siemens (AG), both large-scale manufacturers of electrical and electronic equipment and computers – which plan to build four factories in economically depressed areas of Belgium. The contracts assure each of these companies a 25% share of the government's annual purchases of computer systems and hardware over a five-year period.

19. Belgium's 1970 Expansion Law has come under fire from the EC Commission. The Commission has been examining the law to determine whether or not certain of its provisions violate Article 92 of the Treaty of Rome. Article 92 is a general prohibition of governmental subventions that adversely affect trade between EC countries. Among its exceptions,

2. The necessary royal decrees and implementing regulations have not yet been published.

however, the article does allow aids to economic development of regions where the standard of living is abnormally low or where there exists serious underemployment. The EC Commission has been seeking to determine whether the incentives under Belgium's new Economic Expansion Law are too generous, and whether they are available to firms not only in the problem regions but also in high-employment areas. The Commission undoubtedly has observed that the province of Antwerp, which experienced the least unemployment and highest growth, received 22% of the investment benefits provided under the 1959 and 1966 laws and that, under the present law, state aid can be granted in "development districts" which cover both depressed areas and others.

20. An attempt by the EC Commission and the Belgian government to arrive at a mutually satisfactory agreement regarding Belgium's new aid law reportedly has failed. The EC Commission is expected to rule that the expansion law is not acceptable by EC standards. The Belgian government, however, would have the right of appeal to the European Court of Justice. Most observers consider it unlikely that the Court would overturn the Commission's findings. The Belgian government finds it difficult to comply with the Commission's request that aid be restricted to regions in genuine need because rivalry between Flanders and Wallonia makes the distribution of regional aid a sensitive domestic political issue. Bringing Belgium's regional assistance program into conformity with the Commission's demand would require eliminating subsidies granted solely for reasons of political balance and concentrating assistance efforts on seriously depressed districts.

Outlook

21. The disparity in regional economic development probably will continue to increase through the early 1970s, strengthening the Walloon separatist movement that gained added momentum from the November 1971 election results. Northern Belgium will most likely remain one of the favored locations for foreign investment in Western Europe, giving an edge to economic growth in the Flemish provinces. Flanders, moreover, should benefit from an expansion of trade through Belgium's three major ports – Antwerp, Zeebrugge, and Ghent – when the EC is enlarged to include the United Kingdom, Ireland, Denmark, and Norway. Concurrently, Wallonia's coal mining industry will continue to decline, worsening that region's economic problems.

22. The success of the 1970 Economic Expansion Law will depend in large measure on the manner in which it is administered. Regional development objectives have not as yet been quantified, and important aspects of policy – such as the amount of public funds to be used and specific criteria for development areas – are still to be defined. In view

of the political realities in Belgium, however, it is unlikely that the Fleming-controlled central government will voluntarily provide enough assistance to markedly improve Wallonia's economic position relative to that of Flanders. Rather, they will seek once again to maintain a delicate balance between the amounts meted out to the two linguistic regions. In addition, most political analysts interpret the Act as one more step toward separatism in Belgium. Feeling neglected by the central government, the Walloons argue that, with greater economic autonomy, they could and would do more to spur economic growth in Wallonia than would the Fleming-controlled central government.

23. Concentrating Belgium's regional assistance program in the areas of greatest need would spur rehabilitation of Wallonia's economy. Such a change in the program's thrust could result from pressure exerted by the EC Commission and Belgium's Common Market partners or from internal political pressures. Either way, effective economic assistance to Wallonia would require substantial investment in infrastructure and a worker retraining program, and it would likely be many years before the new spending had a significant effect on economic growth. Meanwhile, the present bitterness would linger.